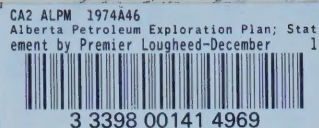


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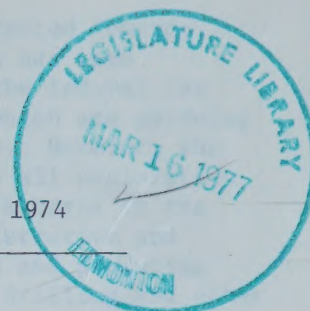


December 12, 1974
10:00 a.m. - M.S.T.

STATEMENT BY PREMIER LOUGHEED

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ALBERTA PETROLEUM EXPLORATION PLAN - DECEMBER 1974



The importance to Alberta of the petroleum industry and the need for continuous exploration for oil and natural gas within the province is obvious to all Albertans. The Federal Government's budget provisions of November 18, 1974, have threatened the viability of this key industry in the province by, in effect, taxing royalties paid by the petroleum companies to the Alberta Government. The impact of such a harsh and punitive provision is effectively to tax a petroleum company for something the company does not receive - that is the portion of the production from a well that goes to the Alberta Government in the form of royalty. In the case of crude oil, the Alberta Petroleum Marketing Commission takes the Alberta Government's share in kind as royalty oil.

With regard to crude oil, the petroleum companies and the Alberta Government have since April 1, 1974, been receiving in the aggregate a price averaging approximately \$6.50 per barrel at the wellhead, which amounts to only about 60% of market value for this rapidly depleting and valuable resource.

As a result of the Federal Government's budget provision to tax provincial royalties - which forces the Alberta Government to make modifications in its royalty structure for oil - the Alberta Government considers that the pricing accord of March 27, 1974, has, therefore, been breached by this unilateral Federal Government action and the Alberta Government no longer considers itself bound by it. The Alberta Government considers that the determination of the selling price of its natural resources is within the jurisdiction of the Provincial Government and intends to act accordingly.

The Alberta Government intends to continue to sell its crude oil at an average price of \$6.50 per barrel for the balance of this winter. Thereafter, the Alberta Government intends to take action available to a provincial government under the Constitution to increase the price of its depleting resources closer to fair market value.

However, because of the consequences of the negative impact of the Federal budget provisions disallowing deductibility of provincial royalties - the Alberta Government considers it necessary to make a number of significant and substantial revisions and modifications to its royalty and corporate tax system in order to strengthen this base industry in the province. It has been concluded that these revisions and modifications - which are collectively referred to as the Alberta Petroleum Exploration Plan of December 1974 - need to be made now and should not be delayed until crude oil prices increase.

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The primary emphasis of the revisions and modifications is directed towards strengthening those smaller companies whose cash-flow position has been proportionately the most adversely affected by the impact of the federal tax provisions. It is directed also towards petroleum companies which are pursuing an active exploration programme within the Province of Alberta. However, the revisions and modifications are also of significant benefit to all exploration and producing companies operating in the province inasmuch as Alberta is the headquarters for most of the companies as well as their administrative and service base. Improvements in the position of the exploration and producing companies generally will have a positive impact upon the many drilling and other service companies located in Alberta.

The main revisions and modifications of the Alberta Petroleum Exploration Plan of December 1974 are summarized as follows:

(1) Refund of Tax on Royalties - Alberta Portion.

A programme to return to the petroleum industry - from the approximately 30% of corporation tax which flows to the province - all amounts the province would receive as a result of the inclusion of royalties and other payments in computing taxable income under the new federal budget provisions, which, by tax agreement, also apply to the Alberta provincial corporate tax system. However, for corporations allocating income to provinces other than Alberta, the royalty payments eligible for the refund will be reduced accordingly. In order to compensate companies which are in a loss position for tax purposes now but which would be exposed to future taxation on account of including royalties and other payments in income, the refund will be paid subject to appropriate regulations whether or not a corporation is in a taxable position in a given year. This refund of Alberta corporate tax on royalties will return approximately \$130 million to the petroleum industry in the 1975 taxation year.

(2) An off-set for increased costs in the finding and developing of crude oil reserves arising out of the rapidly accelerating inflationary cost situation experienced by the petroleum industry in the last 8 months will be provided. The select price for both "old oil" and "new oil" above which a supplementary royalty rate is applied will be increased effective January 1, 1975, by 60¢/barrel from \$4.11/barrel to \$4.71/barrel. The result will be to reduce the effective royalty rate on "old oil" from approximately 40% to approximately 36% and on "new oil" from 28% to 27%.

(3) A Tax Credit Plan for Smaller Explorers

In view of the significant financial burden that has been imposed upon smaller petroleum operators by the federal tax provisions, the Alberta Government is introducing a royalty tax credit. Under the royalty tax credit programme, each corporation paying royalties to Alberta will receive a credit of an amount equivalent to federal corporate taxes on royalties paid to Alberta up to a maximum of \$1 million for each full taxation year to which the federal budget provisions apply. The credit

will be calculated by applying the Federal tax rate of 30% to royalties included in income from May 6 for the 1974 taxation year, 28% for the 1975 taxation year and 25% for the 1976 and subsequent taxation years. All but about 30 of the largest producers should receive the 30% credit, being a full off-set of the negative impact of the Federal budget. As a result of this tax credit plan, the average effective royalty rate on "old oil" is reduced to approximately 25% for many of the smaller companies.

(4) Modifications of Natural Gas Royalty Rates.

The Government believes that the petroleum industry should be further encouraged to explore for additional reserves of natural gas for Albertans to replace rapidly depleting existing natural gas deposits. Furthermore, the Alberta Government recognizes that much of the natural gas remaining to be found in Alberta probably is contained in the Foothills area where access and drilling costs are high and where much of the natural gas is "sour" (that is, with a high sulphur content) and hence, expensive to process. Certainly, if Alberta is to maintain its position as Canada's major natural gas producing area, it is essential to maintain a high level of exploration and development.

Consequently, the Alberta Government proposes to modify the royalty rate on "old gas" by reducing the supplementary rate for sales above the price of 72¢Mcf (thousand cubic feet) from 65% to 50%, effective January 1, 1975. The reduced rate would provide approximately \$60 million in additional cash-flow to natural gas producers in 1976, based on wellhead prices averaging 90¢/Mcf. No changes are considered necessary at this time in the "new gas" royalty rate structure, which has an effective supplementary rate of 35% above a base price of 36¢Mcf.

In addition, the Alberta Government will be making modifications to the regulations dealing with natural gas products, specifically pentanes, propane and butanes, recognizing that there are special problems associated with processing and marketing these commodities.

- (5) The Existing Exploratory Drilling Incentive System will be expanded to stimulate and encourage further exploration drilling to find new reserves of both conventional crude oil and natural gas in order to protect the supply for future generations of Albertans. It is proposed to increase credits for class A footage from 40% to 50% and for class B footage from 30% to 37.5%. It is also proposed to recognize increased drilling costs that have occurred due to inflation since introduction of the system. It is anticipated that these changes will increase substantially the amount of drilling credits based on the 1974 rate of exploratory drilling. The effective date will be January 1, 1975.

Further details respecting these five aspects of the Alberta Petroleum Exploration Plan of December 1974 will be outlined in subsequent meetings with representatives of the petroleum industry. Any legislative or regulatory changes required will be introduced as soon as possible to make the measures applicable retroactively, if necessary, to the effective dates.

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(6) Royalty Rate - Oil Price Increase

The Alberta Government intends to reduce its supplementary royalty rate on existing crude oil production as the price increases above \$6.50/barrel. This reduction is necessary because the current royalty rate of 65% for a price over \$6.50/barrel combined with the non-deductibility of royalties means that the producer in a taxable position will receive virtually no benefit from any future price increases. The extent of such a reduction will depend upon the timing of a general crude oil price increase; the amount of such an increase; and the anticipated levels of production. The Alberta Government welcomes discussion with the petroleum industry as to the extent of such a reduction in the supplementary royalty rate of "old oil" as the price increases above the average of \$6.50/barrel at the wellhead and trusts the petroleum industry will work in cooperation with the Alberta Government to strive for increased prices of crude oil, having regard to the serious supply shortage facing Canadians within seven years as forecast by the National Energy Board.

In addition to these six main features of the Alberta Petroleum Exploration Plan of December 1974, the Alberta Government is pursuing certain other areas of concern. We are aware that a significant re-direction of United States risk drilling funds to exploration in the United States is a natural consequence of the U.S. energy shortage and its resultant Project Independence. In the short term, we are examining what steps the Alberta Government feasibly can take to assist those petroleum operators whose traditional sources of funds have substantially been diverted elsewhere. We have had some initial discussions along these lines and they will be pursued further in the coming weeks.

In the longer term, the Alberta Government intends to include in its own Corporate Tax and Incentive System provisions whereby a company not principally engaged in the oil and gas industry can be encouraged to invest funds in oil and gas exploration in Alberta. The Federal Government has failed completely to recognize in its personal and corporate income tax systems the essential need to provide incentives for all Canadians to invest risk capital in the petroleum industry and hence help ensure the future energy supplies of this country. This need for tax incentives is especially vital to the smaller, independent petroleum companies, many of which urgently require Canadian sources of risk investment to replace foreign funds no longer available to them. In contrast to such a short-sighted attitude on the part of the Federal Government, Alberta believes that it can provide incentives to develop new sources of risk capital for investment in the Alberta petroleum industry through the Alberta corporate tax system. Involvement in such investment by individuals is another objective of the provincial government.

It is becoming increasingly apparent that the Alberta Government's decision announced last spring to set up its own Corporation Tax and Incentive System is now even more necessary to off-set the dis-incentives of the Federal corporate tax system and their attack upon the province's resource royalty structure.

The aggregate effect of the Alberta Petroleum Exploration Plan of December 1974 according to our assessment is approximately double the positive impact for the petroleum industry as compared with the changes made by the Federal Government in its November 18th budget from its May 6th budget.

We call now upon the Federal Government to make further modifications in its budget provisions in recognition of the essential need in Canada to stimulate exploration, not just in Alberta, but also in the frontier areas under Federal lands in order to avert the impending energy shortage in Canada.

Having now made significant revisions and modifications for the industry in this province and to stimulate exploration in Alberta, the Alberta Government intends over the next few months to turn its attention to taking all action available to a provincial government to overcome the continued flow of Alberta's critical and declining reserves of conventional crude oil at below fair value. Alberta's objective for its citizens is higher prices for the oil owned by the people of the province.

